Unilever (UL)

Updated February 14th, 2023 by Aristofanis Papadatos

Key Metrics

Current Price:	$52	**5 Year CAGR Estimate:**	8.0%	**Market Cap:**	$126 B
Fair Value Price:	$50	**5 Year Growth Estimate:**	6.0%	**Ex-Dividend Date:**	2/23/2023
% Fair Value:	104%	**5 Year Valuation Multiple Estimate:**	-1.0%	**Dividend Payment Date:**	3/21/2023
Dividend Yield:	3.5%	**5 Year Price Target**	$66	**Years Of Dividend Growth:**	0
Dividend Risk Score:	C	**Retirement Suitability Score:**	C	**Rating:**	Hold

Overview & Current Events

Unilever is one of the largest consumer goods companies in the world, producing and marketing ~400 brands in nearly 200 countries. Well-known brands include Ben & Jerry's, Q-tips, Suave, Vaseline, Axe, Dove, Hellmann's, Knorr and many more. Its products are used by more than 2 billion people every day. It has a market capitalization of $126 billion.

On January 15th, 2022, GlaxoSmithKline (GSK) announced that it rejected an offer from Unilever to acquire its consumer healthcare business for $68 billion. Due to the size of the acquisition and the rich valuation of the takeover target, the stock of Unilever plunged -17% on that day. However, Unilever later stated that it will not pursue any major acquisitions.

On January 23rd, 2022, activist hedge fund Trian announced that it bought a material stake in Unilever. Trian bought a stake in Procter & Gamble (PG) a few years ago, when the company had stalled. The fund pursued a major restructuring and the stock of Procter & Gamble has nearly doubled since then. We view this news as positive for the future growth of Unilever. The stock jumped 8% on the day of the announcement of the stake of Trian.

In early February, Unilever reported (2/9/23) results for the full fiscal 2022. The company faced high cost inflation but it grew its underlying sales 9.0% over the prior year thanks to 11.3% price hikes, which were partly offset by a -2.1% volume decline. Unilever has raised prices for 8 consecutive quarters. The 13 brands that generate annual revenues over $1 billion grew their sales 10.9%. Due to cost inflation, operating margin shrank by 230 basis points in 2022, to 16.1%, and constant-currency earnings-per-share dipped -2%. This is negative, but we note that the strong brands of the company enabled it to raise prices by 11.3% without a significant effect on volumes. Unilever provided conservative guidance for 2023 due to high inflation, expecting 4%-5% growth of sales and essentially flat operating margin (~16%). We expect sales to exceed the guidance of Unilever but we also expect essentially flat earnings-per-share this year.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$2.18	$2.17	$1.88	$1.92	$2.59	$2.79	$2.86	$2.88	$3.00	$2.76	***$2.75***	***$3.68***
DPS	$1.39	$1.51	$1.32	$1.40	$1.55	$1.78	$1.81	$1.85	$2.03	$1.80	***$1.83***	***$2.23***
Shares[1]	1278	2883	2855	2854	2814	2652	2628	2627	2592	2553	***2520***	***2450***

Unilever has stated that it will pursue growth aggressively in some emerging markets in Asia, such as India, China, Vietnam, Bangladesh, Pakistan and Myanmar. These markets are characterized by rapidly growing populations and an emerging middle class and thus they are very promising.

Unilever has grown its earnings-per-share at a 2.7% average annual rate in the last decade. Due to the currency challenges in Latin America, the pandemic and high cost inflation, growth has decelerated in the last four years. However, we view these headwinds as temporary and expect the company to return to its multi-year growth trajectory next year. Management has provided guidance for 3%-5% adjusted annual revenue growth in the long run. As the company will also boost earnings-per-share via expansion of the operating margin (from 2024) and share repurchases, we are forecasting 6.0% growth over the next five years off this year's somewhat low base amid cost inflation.

[1] In millions.

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Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	18.7	19.6	22.9	23.1	20.3	19.6	20.6	19.8	18.8	17.1	***18.9***	***18.0***
Avg. Yld.	3.4%	3.5%	3.1%	3.1%	2.9%	3.3%	3.1%	3.2%	3.6%	3.8%	***3.5%***	***3.4%***

Unilever is trading at a price-to-earnings ratio of 18.9, which is lower than its 10-year average of 20.1 but higher than our assumed fair earnings multiple of 18.0. If the stock trades at fair valuation level in 2028, it will incur a -1.0% annualized drag in returns. As we have noted in previous reports, investors should not expect to find Unilever at a much cheaper valuation, as it almost always trades at a premium thanks to the strength of its brands and its resilience to recessions.

Safety, Quality, Competitive Advantage, & Recession Resiliency

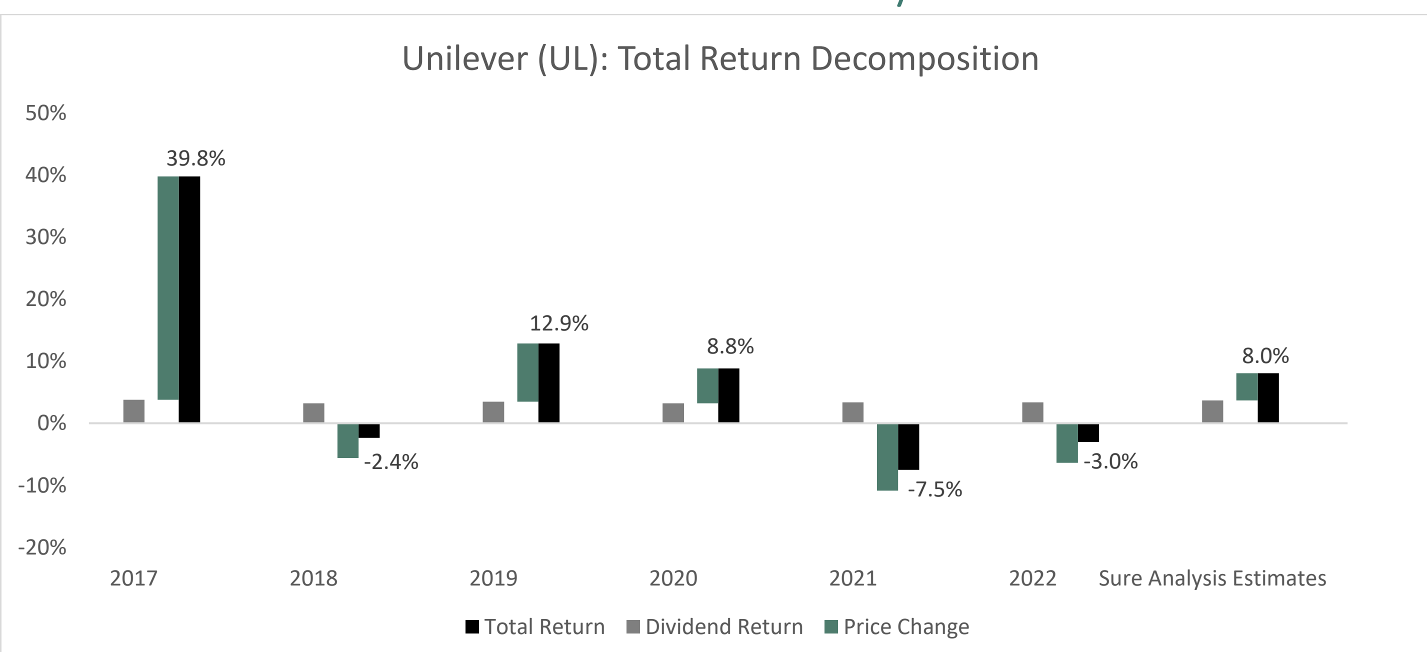
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	63.8%	69.6%	70.2%	72.9%	59.8%	63.8%	63.3%	64.2%	67.7%	65.2%	***66.5%***	***60.5%***

Unilever has a significant competitive advantage, namely the strength of its brands. Thanks to the strength of its brands and its great execution in its growth initiatives, Unilever has always enjoyed strong and reliable free cash flows and has proven much more resilient to recessions than the vast majority of stocks. As a result, Unilever has been able to raise its dividend for 41 consecutive years. Note that this dividend history reflects the company's dividend payments *in Euros*. U.S. investors may experience year-to-year fluctuations in passive income due to foreign exchange fluctuations.

Final Thoughts & Recommendation

Unilever has rallied 20% in four months but it can still offer an 8.0% average annual return over the next five years thanks to 6.0% earnings-per-share growth and its 3.5% dividend, partly offset by a -1.0% annualized valuation headwind. As this stock almost always trades with a premium valuation, we view its current valuation as attractive, though we lower our rating from "buy" to "hold". Unilever may not offer the upside potential of high-growth stocks but its reliable 3.5% dividend and its resilience to downturns could offer attractive risk-adjusted returns.

Total Return Breakdown by Year



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Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	66,135	64,412	59,116	58,341	60,833	60,200	58,192	57,928	62,051	63,353
Gross Profit	27,534	26,662	24,928	24,884	26,309	26,307	25,612	25,170	26,249	---
Gross Margin	41.6%	41.4%	42.2%	42.7%	43.2%	43.7%	44.0%	43.5%	42.3%	---
SG&A Exp.	16,169	14,780	15,474	15,168	15,146	10,320	14,923	8,098	8,132	---
D&A Exp.	1,529	1,904	1,520	1,620	2,293	2,617	2,219	2,305	2,086	2,052
Operating Profit	9,807	10,487	8,205	8,530	10,035	14,895	9,715	10,697	10,296	11,342
Op. Margin	14.8%	16.3%	13.9%	14.6%	16.5%	24.7%	16.7%	18.5%	16.6%	17.9%
Net Profit	6,431	6,877	5,448	5,737	6,821	11,063	6,297	6,374	7,157	8,059
Net Margin	9.7%	10.7%	9.2%	9.8%	11.2%	18.4%	10.8%	11.0%	11.5%	12.7%
Free Cash Flow	5,480	4,376	5,692	5,546	7,035	6,832	7,370	9,178	7,966	5,964
Income Tax	2,458	2,834	2,176	2,127	1,891	3,037	2,533	2,196	2,289	2,181

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	62,848	58,402	57,177	59,654	74,451	69,905	72,594	83,218	85,024	83,455
Cash & Equivalents	1,277	1,959	1,801	1,976	3,979	3,695	4,688	6,824	3,867	4,639
Acc. Receivable	3,938	3,438	3,189	3,519	6,261	4,976	5,507	4,222	6,139	7,567
Inventories	5,436	5,068	4,739	4,523	4,753	4,920	4,664	5,488	5,302	6,360
Goodwill & Int.	28,866	26,964	27,397	29,001	34,073	33,737	34,758	42,976	43,694	43,420
Total Liabilities	42,390	41,058	39,595	41,704	57,418	56,044	57,039	61,503	62,667	60,183
Accounts Payable	9,659	9,286	9,070	9,082	16,107	10,434	10,294	10,301	16,826	19,328
Long-Term Debt	14,721	14,212	15,051	17,125	31,692	27,688	28,996	30,744	31,728	---
Total Equity	19,807	16,600	16,879	17,289	16,124	13,037	14,777	18,777	19,369	20,398
LTD/E Ratio	0.74	0.86	0.89	0.99	1.97	2.12	1.96	1.64	1.64	---

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	10.4%	11.3%	9.4%	9.8%	10.2%	15.3%	8.8%	8.2%	8.5%	9.6%
Return on Equity	32.0%	37.8%	32.5%	33.6%	40.8%	75.9%	45.3%	38.0%	37.5%	40.5%
ROIC	18.6%	20.6%	17.0%	16.9%	16.3%	24.5%	14.6%	13.1%	19.1%	20.8%
Shares Out.	1278	2883	2855	2854	2814	2652	2628	2627	2592	2560
Revenue/Share	22.62	22.35	20.70	20.44	21.62	22.34	22.15	22.03	23.78	24.75
FCF/Share	1.87	1.52	1.99	1.94	2.50	2.54	2.81	3.49	3.05	2.33

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.